NATIONAL FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2008 through the Fourth Quarter of 2011

The U.S. economy is expected to display roller-coaster swings over the next few quarters. The current forecast shows real GDP contracting during the first half of this year, which meets the rule-of-thumb criterion (two or more consecutive quarters of declining real output) for a recession. The projected 0.1% drop in the first quarter of 2008 and the 0.7% decline in the following quarter reflect disappearing supports for the economy. This is consistent with recent data which show housing activity is still retreating, consumer spending has slowed, nonresidential construction may have peaked, spending on business equipment is slipping, and state and local government finances are coming under increased stress.

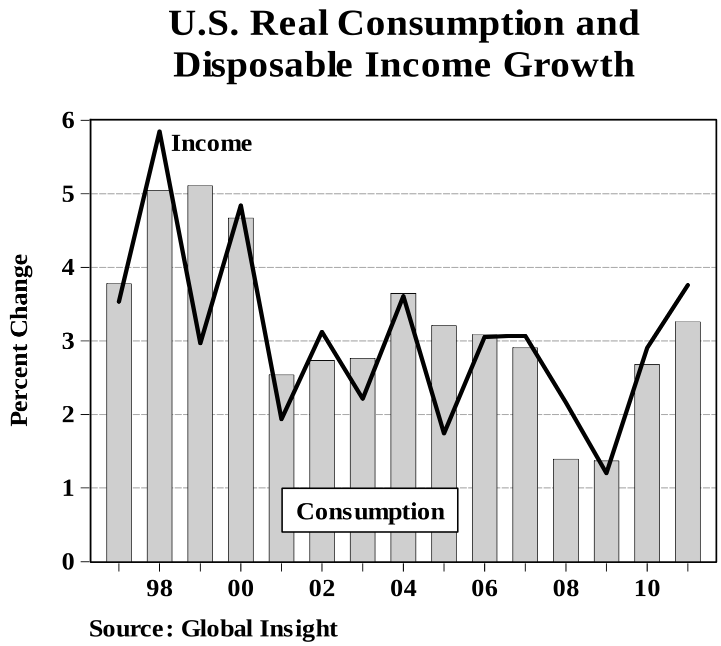
Activity should pick up temporarily in this year's third quarter (2.4%) thanks to help from the fiscal-stimulus package. The largest component of this package is the tax rebates to households worth $107 billion. It is assumed that three-fourths of the rebates are delivered in this year's second quarter, and the rest in the third quarter. It is also assumed that 20% of the rebates will be spent in three months, 40% within six months, and 50% within a year. Given these delivery and spending patterns, the rebates should nudge consumer spending in the second quarter, but their biggest boost should be in the third quarter. However, real output growth is expected to slide after the third quarter due to waning consumer spending, and it is forecast to stall in the first quarter of 2009.

A bright spot for the economy is trade. Global economic growth is slowing, but along with the weakening dollar, it is still supporting U.S. exports. European activity is slowing, partly because U.S. goods are gaining at Europe's expense as the dollar slides, and partly because some of its housing markets are turning down. However, growth in Asia is relatively solid. Falling interest rates and the slowing U.S. economy have put downward pressure on the dollar. While this is bad news for consumers, it is good news for American producers who are selling their wares in the global marketplace.

Although Federal Reserve officials are still indicating that their number one concern remains the risk to growth, there is some concern they are starting to take risks with inflation. Some of that concern is coming from its own ranks. Two members of the Federal Open Market Committee dissented from the March 18th rate cut. However, it is assumed growth will remain the central bank's primary concern in light of growing evidence of an economic contraction. As a result, it is expected to take its federal funds rate down another 75 basis points by mid-2008 and hold it there for the rest of the year.

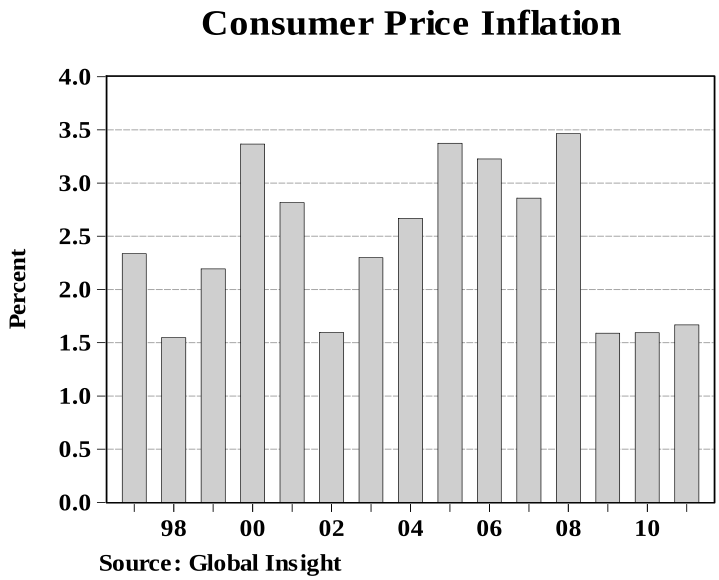
After a couple of growth oscillations, the economy is expected to begin a sustained recovery in mid-2009. Factors contributing to this turnaround include the positive impacts of low interest rates, the bottoming out of the housing sector, and financial institutions lending more freely. After expanding a projected 1.2% this year, real GDP should muster 1.7% growth in 2009, followed by about 3.0% growth in both 2010 and 2011. Despite the anticipated stronger growth, projected inflation drops from 2.5% in 2008 to well below 2.0% in the remaining years of the forecast, thanks in large part to the assumed decline in oil prices. Fundamentals suggest oil is currently overpriced. This distortion, along with the expected global economic slowdown, suggests oil prices could decline to $74 per barrel in 2011. However, oil prices are extremely sensitive to real or perceived supply disruptions, so there are significant risks prices may not fall as much as has been forecasted.

SELECTED NATIONAL ECONOMIC INDICATORS



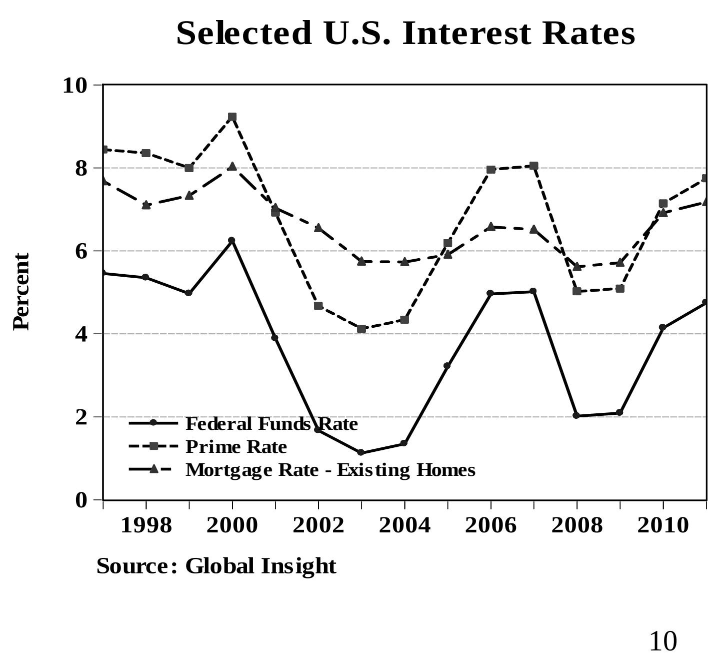
Consumer Spending: Consumer confidence is sinking under the combined weight of rising unemployment, high inflation, declining home and stock prices, and tightening credit, and this does not bode well for consumer spending. The Reuters/University of Michigan consumer sentiment index plummeted from 90.4 last July to 69.5 in March 2008. This decline suggests consumers' moods have shifted from instant gratification to postponed gratification. Indeed, recent data support this change. Real consumption of durable goods fell in four of the five months ended in February 2008, while real spending on non-durable goods declined in each of this year's first three months. As a result, real spending growth is expected to slow to a 0.7% annual pace in the first quarter of 2007, which is down significantly from its 2.3% annual pace at the end of last year. The spending situation is expected to worsen even further in this year's second quarter, as it will actually retreat 0.2%. Boosted by an estimated $107 billion in tax rebates, spending accelerates to a 2.6% annual pace in the third quarter. However, this respite is short-lived, and the spending pace is more than cut in half from the third quarter of 2008 to the fourth quarter. Growth will virtually stall in the beginning of next year before it begins to pick up speed. On an annual basis, real consumer spending is projected to expand 1.4% in both 2008 and 2009. Job losses, declining household net worth, and high gasoline prices will hit automotive spending particularly hard. Sales of light vehicles are forecast to drop from 16.1 million units in 2007 to 14.9 million units this year—their lowest level since 1995. In response to tightening credit conditions, entry-level buyers are sitting out the market, buying smaller cars, or turning to used cars. Rising gasoline prices are encouraging vehicle buyers to downsize, resulting in shifts from large SUVs to crossovers, and from large sedans to mid-sized sedans. Real spending on motor vehicles and parts is expected to shrink 6.5% this year then expand 3.4% next year, 4.5% in 2010, and 3.6% in 2011. Housing-related spending should take even longer to recover for a couple of reasons. Falling home prices have shut the spigot on mortgage equity withdrawal and home equity loans, which are both important funding sources for this market. In addition, home sales are projected to decrease through this summer, which depresses sales of appliances, furniture, and decorating items in 2009. Specifically, real spending on furniture and household equipment slows to a 2.8% pace in 2008 and declines 0.8% in 2009. This year will be the low-water mark for consumer confidence. As it improves after this year, the pace of real spending will quicken. Specifically, real total consumer spending is forecast to grow 1.4% both this year and next, but advance 2.7% in 2010 and 3.3% in 2011.

Inflation: Consumer inflation is forecast is expected to peak at 3.5% this year before dropping below 2.0% during the remaining years of the forecast. An interesting characteristic of this year's inflation picture is its severe quarterly swings caused by its food and energy components. Over the course of this year, consumer inflation for all items is 4.3% in the first quarter, 1.9% in the second quarter, 3.1% in the third quarter, and 1.2% in the fourth quarter. Much of this volatility disappears, however, when food and energy prices are excluded. Specifically, the core inflation rate without these items is 2.5% in the first quarter, 2.3% in the second quarter, 2.4% in the third quarter, and 2.1% in the fourth quarter. Food inflation, which ranges between 5.0% and 3.0%, is higher than overall inflation in each quarter this year,

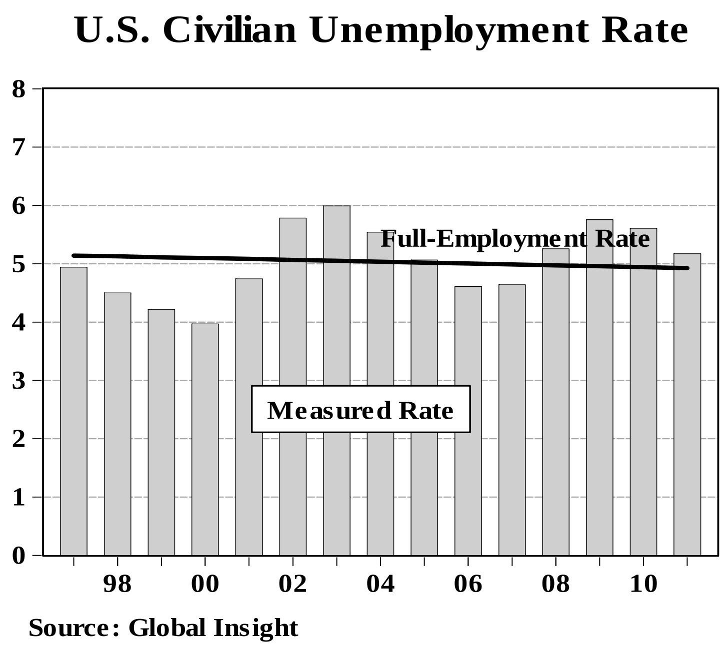


but it is more consistent than energy inflation. For example, energy prices rose 17.2% at the beginning of this year, then they are expected to decline 4.0% in the second quarter, increase 6.7% in the third quarter, and fall 7.4% in the last quarter. Of course, drivers experience the energy situation first hand whenever they fill their tanks. The U.S. Energy Information Administration reported the average price of regular gasoline in the Rocky Mountain region was $3.42 per gallon on April 21, 2008, which was just below the national average of $3.51 per gallon. Of course, these prices are driven by the high cost of crude oil. West Texas Intermediate crude oil averaged $105.55 per barrel in March, which was $10.21 more per barrel than in February. March 2008 was also the first time the monthly crude oil price averaged over $100 per barrel. On April 18, 2008 the spot price of West Texas Intermediate was $116.56 per barrel. The recent rise in crude oil prices have led some to predict the price of gasoline will top $4.00 per gallon this summer. In this forecast, the average price of gasoline peaks at $3.45 per gallon in the second quarter of this year. The main reason for this is the assumption that the crude oil price is near its peak. Prices are expected to fade toward the mid-$80s in 2009 and $80 in 2010 due to economic weaknesses. It is assumed to fall even further as improved non-OPEC supplies come on line. As a result, the average retail price of gasoline is forecast to fall from $3.21 per gallon this year to $2.80 per gallon in 2011. It should be noted that there are significant upside risks to energy prices. For example, by changing just a few assumptions, the price of crude oil could be $11 to $12 per barrel higher than has been presented in this forecast.

Financial Markets: Conditions in the financial markets deteriorated sharply in February and early March, as both long-term and short-term borrowing spreads across a wide variety of debt instruments moved up sharply. In addition, there were severe dislocations in the markets for municipal securities and student loans. Downward pressure on bond prices led to funding problems at a couple of large financial entities. The Federal Reserve launched a multi-prong attack to deflate the pressures building in the financial markets. It increased the "term auction facility" from $60 billion in February to $100 billion in March. It expanded the $100-billion program of term repurchase agreements—in addition to a $200-billion "term securities lending facility" with a broader range of collateral—for primary U.S. Treasury dealers. On March 16, the Federal Reserve orchestrated an orderly takeover of Bear Stearns by JPMorgan and extended a $30 billion line of credit



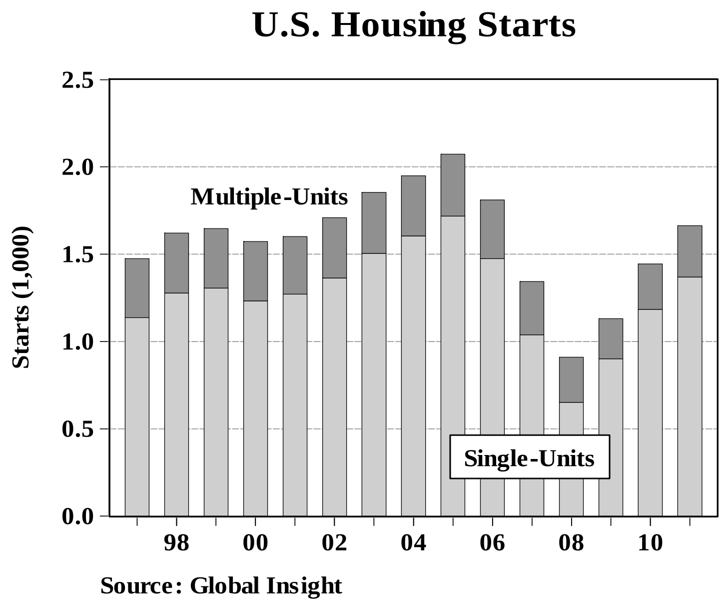
to JPMorgan, and at the same time reduced the discount rate to 3.25% and opened the New York Fed discount window to primary dealers. It also increased currency-swap agreements with the European Central Bank and Swiss National Bank. Lastly, on March 18, 2008, the Federal Reserve slashed both the federal funds and discount rates by 75 basis points. And given its minutes from its March 2008 meetings that noted a broad array of economic indicators had deteriorated in recent months, it appears the Federal Reserve will likely cut interest rates further. Unfortunately, signals from the economy continue to come in on the weak side. As a result, it is assumed the Federal Reserve will lower its federal funds rate by another 75 basis points by early summer, where it should remain at that level through the first half of next year. After that, it is assumed the Federal Reserve will begin to raise rates gradually.



Employment: The nation's dismal job performance this year is cause for concern. Up until recently, steady, but not spectacular, employment growth was a hopeful sign the economy was weathering the downturn relatively well and may avoid a recession. Unfortunately, recent data say otherwise. The U.S. Department of Labor reported seasonally-adjusted payroll employment contracted by 80,000 jobs in March, its third consecutive monthly decline. The goods-producing side of the economy was hammered for a 93,000-job loss. Construction lost 51,000 jobs and manufacturing shed 48,000 jobs. Government, health-care, and food service bucked this trend by adding jobs, but not enough to offset losses in other sectors. Private payrolls fell for a fourth consecutive month, and it is back to about where it was last June. So far this year, the nation has shed 232,000 jobs. The U.S. unemployment rate was 5.1% in March, up from 4.8% the previous month. Unfortunately, the job market will take a while to improve; it posts its only gain this year in the last quarter. And this year is followed by slight gains in 2009. On an annual basis, U.S. nonfarm employment growth is a meager 0.2% in 2008 followed by just 0.4% in 2009. Not surprisingly, the unemployment rate peaks at 5.8% in the third quarter of 2009 and takes another two years to slip below 5.0%. As a result of the slack labor market, unit labor costs are forecast to slow over most of the forecast period, dropping from 3.1% in 2007 to a low of 1.3% in 2010. This slowing should help keep a lid on consumer prices since labor costs are a major contributor to core consumer inflation.

Housing: The stream of negative news suggests the housing sector has not yet hit bottom. Housing starts slipped 0.6% in February. Existing home sales did edge 2.9% higher in February, but the Pending Home Sales Index fell to its lowest level ever that same month, which portends lower home sales in the following two months. Single-family home construction dropped by more than 5.0% for the third time in four months. The U.S. Department of Commerce reported sales of new homes plunged by 8.5% in March to 526,000 units—its worst showing since October 1991. The seasonally adjusted estimate of new houses for sale at the end of March was 468,000. This represents a supply of eleven months at the current sales rate—about twice as long as the six months supply consistent with a balanced housing sector. The median price of a home sold in March 2008 was down 13.3% compared to the previous

March—its largest year-over-year decline since July 1970. This sector's eventual recovery will depend on two factors: falling home prices and long-run sustainable demand. The median price of an existing home is expected to drop 8.4% this year and 1.8% next year. Although home prices will not hit their nadir until 2009, falling prices will rekindle home sales in the second half of 2008. However, there remain a few potholes on the housing sector's road to recovery. Most notably, housing starts will continue to drop and bottom out at 855,000 units in this year's third quarter—its lowest quarterly level since the U.S. Census Bureau began tracking starts in 1947. Based on these declines, residential investment will cut GDP growth by 1.4 percentage points in the first half of 2008. The recovery road will be a gradual incline. For example, after dropping below one million units in 2008, housing starts will expand slowly to 1.66 million units in 2011, which is far below its 2.07-million unit peak in 2005. Beginning this year, the median price for an existing home is expected to drop below $200,000 and remain there until it rises to $205,000 in 2011.



International: Trade is one of the bright spots for the economy, but finding this advantage takes some digging. Indeed, the nominal trade deficit improves little from $708 billion in 2007 to $687 billion in 2008. The reason for this small year-over-year change is high and rising oil prices. Simply put, a tripling of oil prices since early 2004 is too high a hurdle for the surge in exports to offset. The nominal deficit is expected to shrink to $571 billion in 2009, but improve little thereafter. However, the trade improvement is clear when the numbers are adjusted for inflation. For example, the real trade gap has slipped from a high of $650 billion to under $500 billion in early 2008—a significant improvement. It is expected to slide under $350 billion by mid 2009. On an annual basis, the real trade deficit is forecast to be $424 billion this year, $354 billion next year, $357 billion in 2010, and $375 billion in 2011. The greenback has tanked against the euro. The dollar will continue to remain under considerable pressure so long as the spread between domestic and foreign interest rate remains unfavorable. This situation will not improve until the Federal Reserve is at the bottom of its current rate cycle or other countries start cutting their interest rates.

Government: This forecast includes the fiscal stimulus package signed by the President in February 2008. This package provides a total of $152 billion in tax relief in fiscal year 2008. The largest component of this action is the tax rebates to households worth $107 billion. It is assumed that three-fourths of the rebates are delivered in this year's second quarter, and the rest in the third quarter. It is also assumed that 20% of the rebates will be spent in three months, 40% within six months, and 50% within a year. Given these delivery and spending patterns, the rebates nudge consumer spending in the second quarter, but their biggest boost is in the third quarter. Businesses receive $45 billion in tax relief, with almost all of it coming in the form of bonus depreciation. It is not expected to have a big impact on business investment, however, because further spending will be weighed down by concerns over weaknesses in domestic markets. Business investment should accelerate at the end of this year to take advantage of the bonus depreciation, but this will cause spending to weaken in the following quarter.

This forecast also assumes Congress will not allow all of the Bush administration's personal tax reductions to expire at the end of 2010. But tax burdens are expected to rise nonetheless, whether through the impact of the Alternative Minimum Tax or another kind of tax reform that raises government revenues. Despite the higher tax burdens, the federal deficit is expected to widen, as spending rises faster than revenues. Specifically, after declining for three years, the federal budget deficit swells from $163 billion in 2007 to $413 billion in 2008—its largest jump this decade. It begins shrinking again after this year, and it should be about $100 billion lower in 2011 than in 2008.